Treasury Minutes on the Twenty-Second, Twenty-Third and Twenty-Fifth to Twenty-Eighth Reports from the Committee of Public Accounts 2005-2006

22nd Report:	Maintaining and improving Britain's railway stations
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TREASURY MINUTES DATED 26 APRIL 2006 ON THE TWENTY-SECOND, TWENTY-THIRD AND TWENTY-FIFTH TO TWENTY-EIGHTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION 2005-2006

Twenty-second Report

Department for Transport

Maintaining and improving Britain's railway stations

PAC conclusion (i): A third of larger stations in England and Wales, used daily by significant numbers of passengers, are without waiting rooms, and some 15% are without toilet facilities.… The Department, working with the industry and the Rail Passenger Council, should assess the gap between reasonable passenger expectations and existing facilities for different categories of station, and work to agree common standards…

1. The Department for Transport (the Department) agrees with the Committee's recommendation. The priority for Stations has had to reflect a necessary balance. Improving safety and reliability have been the main focus, in line with what passengers have told the industry are the most important issues to them. The railway has seen the Public Performance Measure (PPM) of train punctuality improve from 75 per cent in the year following the Hatfield accident to over 85 per cent now.

2. The Department and partners in the industry consider stations as important gateways to the railway. The Department has initiated a working group with Network Rail, Association of Train Operating Companies (ATOC) and Passenger Focus that will use existing passenger research to provide stakeholders with common language and guidance on the range of facilities that passengers expect at stations. The guidance will better inform investment priorities during asset renewal and in the re-franchising process. Whilst proposals made by bidders will not be a determinant in the franchise award, commitments made by them will be enforced as part of the franchise management process.

PAC conclusion (ii): More than half of Britain's stations are not fully accessible to disabled people.… The Department should seek to speed up the pace of change for improving accessibility…

3. The Department agrees that access to the network is an important issue. The *Railways for All*[1] accessibility strategy was launched, by the Minister for Railways, Parliamentary Under Secretary of State, Derek Twigg MP, on 23rd March and was well received. The objective is to increase the number of journey opportunities for disabled people by improving stations, trains and related services.

4. The *Access for All* funding, committing £370m over ten years is a key element of this strategy. This investment is over and above commitments made in franchises, the ongoing renewal of stations and major station improvement projects. The Department believes that this funding is adequate to make a good start on improving disabled access. A list of the first 47 stations to be the subject of feasibility studies has been produced[2] and the process allows for the implementation plan to be changed, to bring forward work where an opportunity presents itself.

5. During the next three years, around £100m will be spent at the busiest stations in Great Britain as the first part of the *Access for All* programme. With an investment of this size, the Department needs to ensure that the spend is managed well and to best advantage with appropriate controls in place to deliver a significant improvement in the accessibility of our rail network over a relatively short timeframe.

[1] http://www.dft.gov.uk/stellent/groups/dft_mobility/documents/page/dft_mobility_611409.hcsp

[2] http://www.dft.gov.uk/stellent/groups/dft_mobility/documents/page/dft_mobility_611404.hcsp

PAC conclusion (iii): Few train operating companies have joined national schemes to reduce crime and improve personal safety at stations even though research in 1996 and 2002 suggests that introducing additional security measures can increase patronage by up to 11%. The Department should work with the Association of Train Operating Companies and British Transport Police to promote national schemes with station operators and passengers. It should also consider making participation a franchise requirement.

6. The Department agrees that the voluntary, national *Secure Stations Scheme*[3] is a valuable tool in improving personal safety at stations. In developing future rail franchise agreements, we will expect Train Operating Companies (TOCs) to consider the appropriate level of security at their stations and will encourage improvements, including accreditation. We will require bidders to state what percentage of their stations will meet the standard.

7. Some train operating companies have commitments within their franchises to achieve *Secure Station* accreditation for their stations and the majority of train operating companies participate in the scheme.

8. The Department, ATOC and the British Transport Police are members of the *Secure Stations Scheme's* Steering Group. The rail industry has been directly involved with the design, development, launch and progression of the Scheme, including the standards.

9. There are relatively low crime levels at most stations. The highest crime rates are at major stations, those with the highest passenger throughputs. Network Rail is committed to the *Secure Stations Scheme* and all bar two of its major stations are re-accredited under the Scheme (one of these is in the process of being re-accredited).

10. It should be noted that the 1996 and 2002 research referred to in the PAC conclusion above indicated that approximately nine per cent of the 11 per cent increase in patronage would be on off-peak bus services. On trains, the figure would be around two per cent.

PAC conclusion (iv): The original franchises awarded on privatisation of the railways failed to put sufficient emphasis on improving station facilities. The Department should examine ways of applying new requirements to original franchises which may have sixteen years to run…. It could also promote innovative but cost effective improvements such as pay-on-entry toilet cubicles…

11. The Department acknowledges that the original franchise agreements followed passenger priorities and put less emphasis on station facilities when compared to reliability, which research shows consistently, is passengers' first priority. However the Department wants to seek improvement in stations and to maximise opportunities for doing this.

12. The Department believes that the changes to the structure of the rail industry contained in the Railways Act 2005 were correct and two new mechanisms will make station enhancements easier. The Office of Rail Regulation (ORR) will work with the industry to implement the Stations Code that will put in place more effective contractual arrangements between Network Rail and the TOCs at stations. Additionally, Network Rail will publish Stakeholder Guidance that will set out how organisations should approach the company with proposals for station enhancements and who they should contact.

13. The new cross-industry forum includes train operating company representatives and continues the debate on how the parties can work better together and share best practice.

[3] http://www.dft.gov.uk/stellent/groups/dft_mobility/documents/page/dft_mobility_036931.hcsp

14. Additionally a new post is being created within the Department's Rail Group to take act as a focus within the Department on stations issues. The post will be the liaison for working collaboratively with Network Rail, Train Operating Companies, Local Authorities, Passenger Focus and other stakeholders when discussing station improvements and related issues. By setting up this post, the Department is encouraging a cohesive approach with all stakeholders to improving stations across the network.

15. As announced in the Rail White Paper, Network Rail has been given funding support to take forward small schemes for the future; this could include station improvements – in consultation or in partnership with local authorities and train operating companies. Network Rail has funding to spend up to £50 million per annum on enhancements with a value of £5 million or less.

PAC conclusion (v): Assessment of station quality has been left largely to station operators, and little use has been made of financial penalties to drive up standards. The Department should undertake more independent assessment of station quality… It should consider employing a points system to rate stations, publishing the results periodically…

16. The Department disagrees that it should undertake more independent assessment of station quality. However it does believe that station condition is an important issue and aims to work with the industry to make the most effective use of the tools currently available.

17. Importantly, train operators will have an incentive to maintain quality standards by the new pre-qualification arrangements in the franchising process. In order to successfully pre-qualify for a franchise competition, bidders will have to demonstrate concrete past performance in delivering clean, operational and well-maintained facilities to passengers.

18. The National Passenger Survey (NPS), undertaken by Passenger Focus is an independent assessment of passenger views of stations and their facilities. The NPS Stakeholder Group (on which the Department is represented) is currently reviewing the survey questions and methodology to consider enhancements or amendments. Train operating companies rely heavily on the results of this survey which are published six monthly on an operator by operator basis and provide encouragement to train operating companies to improve the quality of their stations.

19. The ORR monitors the facilities available, and their condition, acrossthe whole portfolio of stations. An additional layer of monitoring by the Department is unlikely to provide value for money. However, we are committed to working with the industry, through the new stakeholder forum, to improve the processes and structures.

PAC conclusion (vi): In many cases train and bus services are poorly integrated. In the deregulated bus market outside London, the Department has limited leverage… It could, nevertheless, work… to promote better signposting between train stations and local bus stops and bus stations. It could also encourage the display of bus maps, routes and timetables prominently at stations.

20. The report acknowledges that the Department has limited leverage to improve the integration of local bus and train services. In many cases delivery is for the Local Authorities to co-ordinate and manage as signage outside stations is in their remit. However there is scope for the industry to work better together. We believe that the best practice opportunities discussed under the response to conclusion iv, above, should help to deliver a better focussed and co-ordinated approach from train operating companies and Network Rail than has hitherto been the case.

PAC conclusion (vii): Network Rail has been seen as a barrier to station improvement through unduly complicated and inflexible procedures, an unwillingness to share risks associated with improvement projects, and a lack of targets for developing franchised sites. The Office of Rail Regulation should undertake an early review of the impact of the Stations Code to be introduced in April 2006, to make sure the changes anticipated to tackle these barriers are delivered.

21. In addition to the Stations Code, which will provide an effective tool for the industry, the ORR has recently issued a revised framework for encouraging third-party investments in the rail industry, working with Network Rail. Both of these will facilitate station improvements. The Department would support and ORR has agreed to undertake a review of how the new arrangements are working and will continue to liaise with the industry on progress. Network Rail have also recently established the Industry Risk Fund which will make it easier for third parties to become involved in rail projects.

PAC conclusion (viii): The number of bodies involved in maintaining and improving stations has led to a fragmented approach, lacking overall leadership and strategic focus. The Department should identify investment priorities across the network, set out a coherent approach for attracting for in private funding to help fund improvements, and set out clearly the actions needed to address capacity pressures, particularly at major stations, over the next 10 years.

22. The Department acknowledges that in the past there has been a lack of transparency over the structures and processes that manage stations. However, Network Rail is responsible for investment and capacity at stations, and considers these as integral part of its planning process which includes the development of the Route Utilisation Strategies.

23. Network Rail is already planning for growth at the major London terminals, with projects for improvements at various stages of development for Charing Cross, Euston, Victoria, Waterloo, Paddington and London Bridge. Delivery of these projects involves attracting third party funding from developers to offset the costs of enhanced capacity and facilities.

24. Similar activities are in place for other major stations. This, and the clarity being provided by the new contractual processes and Stakeholder Guidance, are major steps forward in attracting private funding to stations and the success will be closely followed by the Department.

PAC conclusion (ix): Adopting a portfolio approach for developing stations offers the potential to cross-subsidise between stations and spread gains more widely across the network…. The Department should also consider promoting investment in stations, by for example setting up station companies with responsibility for the management, repair, maintenance and improvement of portfolios of stations.

25. The Department recognises that a portfolio approach may offer the potential to spread gains more widely across the network. The Department is taking a close interest in Network Rail's proposed portfolio approach to achieving increased funding for station enhancements. We are keen to see, not only how effective such schemes are at obtaining third party funding, but also how quickly these schemes can be developed and how the stakeholder engagement will be managed.

26. The industry has recently been through a review and structural change. The Department believes that it would not be helpful to change the structure again so soon by adding a further compulsory layer such as the StationCo concept. A period of stability is needed to build on current initiatives and improve stakeholder

understanding of the processes. The Department will continue to work with the industry to identify and remove deficiencies from the current regulatory and contractual structure.

27. Different stations do serve different purposes and tailored approaches may be appropriate. Encouraging Network Rail and other rail companies to develop portfolio investment approaches over the long term may be one way to encourage best value investment. There are also other approaches used by smaller schemes throughout the country that may provide other useful models and the success of these will be reviewed.

Twenty-third Report

HM Revenue and Customs

Filing of income tax self assessment returns

The Commissioners for Revenue and Customs Act 2005, which received Royal Assent on 7 April 2005, provided the legal basis for the new integrated Department, HM Revenue and Customs, which was launched on 18 April 2005. HM Revenue and Customs exercises the functions previously vested in the Inland Revenue and HM Customs and Excise. References below to "the Department" cover both the functions of the Inland Revenue up to 18 April 2005 and the new HM Revenue and Customs (HMRC).

PAC conclusion (i): Taxpayers are taking longer to file their returns and therefore the Department has less time to process them and makes more errors. It sends out the returns in April each year before most employed taxpayers have received their P60 form and other financial information they need to complete the returns. The Department should therefore send out returns in late May. In time, it could then include on returns information that it has already received, which should help taxpayers to complete the form accurately.

1. HMRC acknowledges that some taxpayers would benefit from delaying the issue of the tax return. It is proposing to run a pilot in April 2007 which would include delaying the issue of the tax return to a small proportion of taxpayers, who are also in Pay As You Earn (PAYE), until July 2007. However, the Department will also need to consider those taxpayers who will want to claim any tax refund as soon as the tax year has ended.

2. Lord Carter of Coles' review of HMRC online services was published alongside this year's Budget, and the Government has accepted his recommendations. He has concluded that online tax returns can provide greater certainty, integral validation and help, faster completion of the filing task and faster repayments. Pre-population of online forms is one way to achieve some of these benefits, and HMRC is already able to pre-complete online tax returns with some data, such as names, addresses and reference numbers, and has a longer-term aim to include details of income and tax deducted. However, pre-populating paper forms would be more difficult, and would remove this incentive for online filing.

PAC conclusion (ii): Errors by taxpayers in completing their returns cost £2.8 billion in lost tax and result in additional costs for the Department in carrying out enquiries to correct them. Some of the errors are due to genuine mistakes or misunderstandings by the taxpayer. The Department should provide clear information to taxpayers on the most common mistakes and how to avoid them. In particular it should target the groups such as partnerships and sole traders who are most prone to filing inaccurate returns.

3. HMRC accepts the Committee's findings. It uses a random enquiry programme to measure the percentage of inaccurate returns and the tax consequences of non-compliance. The latest results (for tax returns filed in 2002-03) show that 68 per cent of returns were filed accurately. The annual tax loss identified by random enquiries is estimated at £2.8 billion (extrapolated from the random sample). This sum covers a wide range of behaviours from small innocent errors to deliberate evasion. HMRC has also introduced a process to resolve minor queries or discrepancies identified during the processing of returns. This allows returns to be amended at this stage and avoids unnecessary formal enquiries being opened.

4. HMRC provides information on its website of the 10 most common errors and also issues letters to small businesses, targeted at particular error risks based on

previous returns. These letters include targeted guidance to help taxpayers complete their returns accurately. The Department agrees that more education of customers can help reduce errors, and aims to update information for taxpayers on a regular basis.

PAC conclusion (iii): Some errors made by taxpayers are because they do not have access to appropriate advice from the Department. Telephone helpline staff often lack the detailed knowledge to respond consistently and accurately to enquiries and taxpayers have experienced difficulties in contacting them at peak times. The Department should improve the training for call centre staff and the access to specialist advice for complex enquiries. It should also extend the hours of service at peak periods of the year.

5. HMRC acknowledges the Committee's conclusion. HMRC's customer contact strategy seeks to steer customers to contact it through the most appropriate channels to meet their needs at the lowest cost to them and the Department, whether online, by telephone, by letter or through visiting one of its many Enquiry Centres. All staff are trained to provide correct and appropriate advice. Call Centres have also introduced more targeted training and additional coaching of individual agents when required.

6. HMRC takes account of customer demand when determining helpline opening times, and also opens many of its busier Enquiry Centres later during the peak period to advise taxpayers and accept returns. Following concerns about contact by telephone during the Self Assessment (SA) filing peak in previous years, special arrangements were put in place in January 2006 so that all calls to the SA helpline were answered successfully.

7. A record number of SA returns were filed on-line this year with no significant customer contact concerns. The post-event review of the management of this online filing peak will inform the handling of future online peaks for SA and other taxes.

PAC conclusion (iv): The Department makes errors in processing 5% of tax returns resulting in £65 million undercharges and £30 million in overcharges of tax. The Department has also incorrectly imposed penalties for late filing on some 30,000 taxpayers who actually filed on time. The Department should improve its training of staff, the logging of returns and its quality control arrangements, for example by undertaking real time quality control checks as the returns are being processed to prevent errors and stop them recurring.

8. HMRC accepts the Committee's findings. Its Public Service Agreement includes a target to improve its accuracy in administering SA, PAYE, tax credits and National Insurance Contributions (NICs) to at least 95 per cent by 2008. HMRC is taking steps to tackle the sources of errors by, for example, providing better IT support for staff on PAYE coding. It is also streamlining its quality checks to ensure they are well-focused and integrated in real time with the flow of work.

9. HMRC has improved the accuracy of its logging systems to reduce the number of incorrect penalties, which will also be improved by the increase of online filing. In 2004-05, the latest year for which figures are available, this was reduced to 13,000 incorrect penalties, and is expected to fall further for future years.

PAC conclusion (v): The Department makes errors in calculating at least a quarter of taxpayers' PAYE codes so employers then deduct the wrong amount of tax. Taxpayers without professional advisers are less likely to challenge the Department's errors in tax assessments, codes and penalties. The Department should accept more responsibility for its mistakes. It should advise taxpayers who are most likely to be subject to coding and other errors, such as those with income from more than one source, to check the accuracy of the data it has used.

10. HMRC accepts that it makes errors in Coding. The number of individual SA taxpayers affected by coding errors in 2004-05 was about 1.4 million (with around 2 million errors, more than one of these errors often affects the same code). Because of the annual cycle of SA, coding errors are corrected when the SA return is submitted after the end of the tax year affected. HMRC recognises that it would be better to code correctly in the first place. But SA does provide this opportunity to put things right.

11. HMRC already asks customers to check the information on their coding notices, recognising that customers without professional advisors are less likely to identify errors themselves. HMRC accepts that it can do more to reduce its mistakes and has plans to improve both the quality of coding work and the quality assurance process which underpins it.

12. It has introduced a new mandatory tool – The Coding Assistant Calculator – for staff to calculate correct codes and introduced further quality checks. It has also issued new instructions about dealing with coding exception printouts, which is an area of work which has created a significant number of errors in the past.

13. HMRC is now issuing a new style coding notice which gives customers a clearer explanation of their code without the need to refer to explanatory notes in a separate booklet – which many people found difficult to understand. This should make it easier for customers to see when something is wrong, although initially such a major change to the look of the coding notice may be unwelcome to some customers simply because it is unfamiliar.

PAC conclusion (vi): The Department recognises it needs better information to manage its business effectively. As a minimum it should have systems that can track errors in processing and coding and the imposition of penalties and their enforcement. It should monitor the consequences for taxpayers and tax loss. It should set a target to improve the accuracy in setting tax codes from 73% to well over 90%.

14. HMRC accepts these findings and is improving its Management Information Systems. It now uses a monthly programme (previously annual) of quality monitoring to measure the quantity and type of error when processing and coding, along with the consequences for taxpayers and tax loss resulting from these errors.

15. HMRC is continuing to develop its daily penalties database. Improvements from 1 November 2005 enable the Department to develop more meaningful and robust management information about late returns. An evaluation of the changes will take place this year to identify any further improvements required.

16. The current Review of HMRC Powers, Deterrents and Safeguards is also considering how best to obtain the information needed for better risk assessment and better-targeted compliance activities.

17. HMRC's Public Service Agreement includes a target to increase to 95 per cent, by 2008, the rate of accuracy achieved in administering SA, PAYE, Tax Credits and NICs; within this, the PAYE measure is on track to achieve over 90 per cent by the target end date.

PAC conclusion (vii): It costs the Department £220 million a year to process tax returns. The Department has targets for improving efficiency and expects to achieve these by reducing the number of processing centres. Further efficiencies could be achieved by comparing with the processing costs of other taxes and benefit payments to identify and apply good practice, such as not duplicating the input of data and developing the main tax return so that the information on it can be scanned.

18. HMRC accepts this conclusion. HMRC is building up a more detailed understanding of the total costs of the Self Assessment process and what drives them. It will use this information to identify efficiencies in the process and reduce costs. The Department has also begun a programme to streamline its processing activities using new “Lean” techniques, and over time will reduce its number of processing sites.

19. As part of its settlement for next year’s Comprehensive Spending Review, HMRC has been set challenging targets to reduce its spending by 5 per cent a year in real terms from 2008-09 to 2010-11. It is currently examining its main processes, including Self Assessment data inputting, as part of its work to achieve these efficiency savings.

20. Work is also continuing to develop a new main SA tax return. A pilot of the new form began in April 2006 with almost 8,000 customers. The form is designed to be readable using rapid data capture technology. In line with the recommendations of Lord Carter’s Review, HMRC will be undertaking a further appraisal of the value of automated return capture before the form is introduced generally from April 2008.

PAC conclusion (viii): E-filing is cheaper and more accurate than filing a paper return but only 17% of returns are filed electronically. Other countries have higher rates of electronic filing, for example 44% in the United States of America and 83% in Australia. The Department should encourage more use of e-filing by making it more user friendly, for example by pre-completing parts of the on-line tax return forms with data it already holds. It should make on-line filing of returns by professional agents mandatory.

21. HMRC accepts the need to encourage more use of e-filing. Take up of the SA Online service has been growing steadily since the 17 per cent achieved by the 31 January 2005 filing deadline. This year we received nearly 2 million SA returns online by the 31 January 2006 filing deadline, nearly 25 per cent of the total received by that date. Lord Carter has recommended a number of measures to encourage further voluntary take-up of SA online filing from 2008.

22. As Lord Carter has recognised in his report, under many other countries’ tax systems individuals are due a substantial refund when they make their tax return. This can act as an inherent incentive for online and early filing – because refunds are processed quicker. The UK system, where employees’ allowances are included in their code, and in most cases the right amount of tax is collected during the year, may be fairer but does not encourage online filing in the same way.

23. HMRC is constantly working to improve the user-friendliness of its online services, which has helped to encourage growing take-up. HMRC received over 16,000 pieces of customer feedback on its online services during January 2006 – of these, 88 per cent were positive reactions to the services. HMRC is already able to pre-complete online tax returns with some data, such as names, addresses and reference numbers, and has a longer-term aim to include details of income and tax deducted.

24. HMRC will not be requiring professional agents to file online. The Government has accepted Lord Carter’s recommendation that, from 2007-08, computer generated SA ‘substitute’ returns on paper, should no longer be accepted. HMRC is also enhancing the SA Online filing service to accept additional information in attached documents from later this year. These measures will encourage the increased use of online filing by agents who use software, without the need to make it mandatory for them.

PAC conclusion (ix): There are major peaks in workload around the September and January filing deadlines. These cause problems for the Department in

processing large numbers of returns accurately. Smoothing the peaks would improve accuracy and efficiency. Taxpayers in other countries have only three to four months to file compared to ten months in the UK. Subject to Lord Carter's recommendations, the Department should consider bringing forward the filing dates and/or have differential filing dates for various groups of taxpayers to spread the workload.

25. HMRC accepts this recommendation. Following Lord Carter's recommendations, and subject to views on them received in accordance with paragraph 62 of the partial regulatory impact assessment, the Government proposes that the filing period for SA should be reduced to bring it closer to the international norms, with extra time allowed for online filing. Also, the period that HMRC has to query a return (the "enquiry window") will be linked to the date the return is filed, to remove a perceived barrier to early filing.

26. In detail the proposals are that from April 2008, the deadline for filing paper returns will be 30 September, and for online returns will be 30 November. The enquiry window will run for twelve months from the date a return is filed. Introducing different filing dates for paper and for online filing will provide an incentive to file online, and help to spread the "peak" of filing experienced by HMRC, while retaining the option to file on paper for those who prefer to do so.

Twenty-fifth Report

Department for Education and Skills

Securing strategic leadership in the learning and skills sector

PAC conclusion (i): With 500 organisations involved in the planning and delivery of further education there is significant risk of duplication and wasted effort from overlapping roles. Having some 400 colleges, 47 local Learning and Skills Councils, nine Regional Development Agencies, nine Regional Skills Partnerships and 25 Sector Skill Councils involved in determining the demand for and provision of further education looks like excessive bureaucracy. The Department should continue to work with these bodies to rationalise responsibilities and simplify structures so that less money is spent on administration and more on the frontline delivery of education and training.

1. The Department for Education and Skills (the Department) accepts the importance of rationalising responsibilities and simplifying structures. Already we have taken steps to rationalise the inspection service and, subject to the passage of the Education and Inspections Bill, there will be a new single inspectorate from April 2007. We are also working to ensure there is clarity of understanding about the roles of those bodies involved in the further education (FE) system. For example, in the White Paper *Further Education: Raising Skills, Improving Life Chances*, Cm 6768 issued on 27 March 2006 (the White Paper), we set out how we plan to simplify quality assurance and improvement within the FE system and articulated the role and responsibilities of each of those bodies involved in this process.

2. As part of the work to ensure that less money is spent on administration and more on frontline delivery, the White Paper indicates that the Learning and Skills Council (LSC) will introduce a single gateway for all its publications and data returns. Alongside this will be a single mechanism for setting up information standards and data and reporting requirements so that all agencies that interact with colleges can do so in a more streamlined way.

3. As stated in the White Paper, both the Department and the LSC agree they should reduce in size. As part of the wider programme of Government efficiency savings, the Department is reducing staff numbers by some 30 per cent and the LSC, as part of *agenda for change*, is reducing its numbers by 1,100. The LSC is currently restructuring in order to streamline activities through nationally, regionally and locally. These organisational and system changes are expected to release £40 million in administration costs to be spent on frontline delivery of education and training.

4. The strengthening of the LSC's regional presence will enable a more coherent approach to planning with other regional bodies such as the Regional Development agencies and Regional Skills Partnerships. The increased focus on delivery in small local areas by partnership teams will lead to greater alignment with area-based and local authority planning. The LSC will move to its new structure on 1 June 2006. Given these changes, the current structure of 47 local LSCs will change. The White Paper states the Department will ask the Chair of the LSC to advise on a new streamlined accountability structure, which secures strong engagement of employers and other stakeholders.

5. The Bureaucracy Reduction Group (BRG) for the post-16 sector was re-constituted in November 2005 under a new Chair, Caroline Lewis, a former FE Principal, who now reports jointly to the Secretary of State and the Chair of the Learning and Skills Council (LSC). The BRG now has a wider membership to include all of the key sector delivery partners and stakeholder organisations. On 10 March, it published a report of progress in reducing bureaucracy since 2004. The

report, *Annual Progress Report 2005*, is available on the Department website at www.dfes.gov.uk/successforall/downloads/annualprogressreport2005-251-380.pdf. This report includes the terms of reference of the re-constituted BRG and its new membership. The BRG is developing a new Action Plan, which it expects to publish in early summer 2006.

PAC conclusion (ii): It is not clear how the planned £40 million reduction in the Learning and Skills Council's running costs will result in less bureaucracy. The Council should publish plans that show how and when this reduction will be achieved and quantify the intended benefits for colleges for example, in terms of streamlined reporting procedures.

6. The LSC accepts this conclusion. The £40 million will be released from the running costs of the LSC. It results from the LSC reviewing and streamlining its structures and staffing required. The LSC has introduced new ways of working which will reduce bureaucracy related to streamlined arrangements for planning, data collection and reporting. The LSC published a prospectus ("Learning and Skills – *the agenda for change*") in August 2005 that sets out how this will be achieved. The LSC intends to publish further details of progress and plans for implementation on a regular basis.

PAC conclusion (iii): Further Education Colleges are routinely subject to four expensive different types of audit and inspection. The Adult Learning Inspectorate and Ofsted undertake joint four yearly inspections of colleges; the Learning and Skills Council's assurance team review financial management; a separate review and compliance examination may also take place; and each college is subject to an annual external audit. The Department and the Learning and Skills Council should consider whether a single organisation such as the National Audit Office should have responsibility for commissioning and co-ordinating the audits of further education colleges.

7. The White Paper states that excellent colleges will get more freedom with high performing providers not subject to unnecessary scrutiny and where intervention is in inverse proportion to success.

8. In building towards these freedoms, the Department and the LSC have considered the audit arrangements for further education colleges very carefully. As autonomous institutions, responsibility for the selection and appointment of auditors is an important function of the college. Colleges are currently able to choose which companies undertake their audit work and appoint those who can provide the most appropriate service. This may include broader financial/audit-related advice (e.g. on issues such as VAT) that would not normally be provided by the National Audit Office.

9. Successive steps have been taken to reduce the burden of audit on colleges. The LSC review of financial management and governance is already coordinated with the work of the inspectorates into one visit process every four years. The separate review and compliance examination is carried out in response to alleged irregularities and as such is not a routine part of audit but is an essential part of risk management. Colleges' external and internal audits are primarily in place to give assurance to the college corporation and serve the LSC as a secondary purpose.

10. The total costs of audit are at their lowest level for five years, being around £15 million in 2004-05. Colleges appoint their external and internal auditors through commercial competition and therefore essentially have control over these costs. These two elements of audit, along with other audit that colleges choose to buy, account for £12 million of total audit costs.

PAC conclusion (iv): In many colleges self inspection is working well but in a substantial minority there is room for considerable improvement. In 2003-04

some 29% of colleges' quality assurance systems including self assessment were judged unsatisfactory by inspectors. If self regulation with its associated benefit of reduced inspection costs is to become more widespread, the Learning and Skills Council needs to help colleges address weaknesses in their quality assurance through promoting peer assessment among colleges and through the development of a self assessment tool.

11. The LSC agrees with this conclusion. LSC guidance on 'Quality Improvement and Self-Assessment' was published in May 2005. This recommended that colleges' self-assessment reports use the five questions of the common inspection framework for the basis of their self-assessment approach, interpreted in light of their own mission, goals and context. An internet-based Provider Quality Gateway has been launched by the LSC to support colleges in carrying out self-assessment.

12. As part of *agenda for change*, the LSC, in partnership with the Quality Improvement Agency and the Association of Colleges has put in place a number of peer-referencing pilot projects for 2006. These projects bring together groups of colleges to review the robustness of judgments made in self-assessment reports, disseminate good practice in quality assessment and develop the use of quality benchmarking. All projects will be evaluated and further guidance on self-assessment and peer-referencing will be developed and published with the Quality Improvement Agency during 2006-07.

13. The Department also agrees with this conclusion. In the White Paper, we say we want to create a modern, more self regulating form of college autonomy where colleges work together to set, review and raise standards and achieve continuous improvement. Effective self assessment is necessary element of making this vision a reality.

PAC conclusion (v): Some 35 colleges have been given the time and opportunity to improve but their provision has yet to reach a satisfactory standard. Where this situation persists, local Learning and Skills Councils will need to move funding to other, better performing colleges or other providers; or where a college is poorly managed and shows no sign of improvement broker a merger with a well managed college.

14. The Department and the LSC agree with this conclusion, but note that in fact only nine colleges remain judged unsatisfactory by the Office for Standards in Education (Ofsted). The figure of 35 underperforming colleges quoted is out of date, according to latest figures taken from the Ofsted inspections. Of the 388 inspections in cycle 1 and the 37 inspections in cycle 2, a total of 42 colleges have been found to be inadequate. Re-inspection to date of 28 of the inadequate colleges shows that 17 have all satisfactory or better provision and 11 are still having some unsatisfactory provision, but are no longer inadequate. Five colleges have been dissolved, leaving just nine colleges (2 per cent) still judged to be inadequate.

15. While clearly any level of inadequate provision is unacceptable, and the LSC is working with these colleges to address the situation, we should acknowledge the good performance across the sector generally. In cycle 2, inspections shows 95 per cent of leadership and management grades were found to be satisfactory or better and 97 per cent of grades for overall effectiveness were satisfactory or better.

16. In November 2005 the LSC published a revised framework for planning and quality ("Planning for Success"). This sets out the actions the LSC is taking to agree development plans for the academic year 2006-07, including extending the use of performance benchmarks, encouraging colleges to carry out self-assessment and strategic analysis, and ceasing to fund provision that is judged inadequate on re-inspection.

17. The White Paper sets out further details of how the LSC will intervene in colleges where standards are low. The LSC will issue a formal notice with a specified short period in which to see improvement (in most cases, one year). The LSC will be able to withhold part of its funding and will judge what proportion would be most effective depending on circumstances. If, at the end of the notice period, there is not sufficient improvement, the LSC will implement one of four types of intervention: change of leadership, change of governance, opening provision up to competition, and close collaboration or merger with a stronger provider. Some of these intervention powers will require new legislation and the timescale for their introduction is not yet clear.

PAC conclusion (vi): Governors have an important role in ensuring that colleges operate within their statutory authority and exercise proper stewardship over public funds but may be insufficiently informed about the policies that affect their colleges. The Learning and Skills Council should produce short, customised communications for governors covering its most important areas of policy and development.

18. The LSC agrees with this conclusion. The LSC has a Governor Engagement Communications Plan that sets out methods and channels for outreach to school and college governors. A new area on the LSC website designed for school and college governors, with content tailored to each group, was launched in November 2005.

19. The LSC is developing a handbook of good practice in LSC/college relationships, including with college governors. This will cover: the statutory framework, the powers and roles of the LSC and the Department, and the status of incorporated colleges; codifying existing guidance for planning, support, intervention, audit and accountability; and good practice in communications and ways of working. The aim is to help the LSC (executive and non-executive) better understand the contribution and needs of colleges, and to help college managers and governors better understand the role of the LSC.

PAC conclusion (vii): Vulnerable and socially excluded people are less likely to take up learning because they feel that formal qualifications are beyond their reach. The Learning and Skills Council has protected personal and community development learning at £210 million a year and proposes a 14% increase in funding for courses for people with learning disabilities up to 2008. Colleges' three year plans need to set out how these funds will be used to develop courses which are likely to appeal to vulnerable groups together with indicators to monitor take up, the sustainability of such training, and ultimately its impact in helping people at risk of being excluded.

20. The LSC agrees with this conclusion. The LSC vision for personal and community development learning is for it to be prioritised by the community for the community, with each area deciding its own priorities and harnessing other public funds in addition to those safeguarded by the LSC. A wide range of providers is expected to be involved, including local authorities, the voluntary sector and colleges. These arrangements should to be in place for the academic year 2007-08 and will reflect both the LSC's new structure and existing local good practice.

21. In 2004 the LSC commissioned a review of its planning and funding of provision for learners with learning difficulties and/or disabilities which was independently chaired by Peter Little OBE. The report of the review *Through Inclusion to Excellence* was published in November 2005 and a consultation is currently underway on the recommendations of the report. The report highlights that LSC work on provision for learners with learning difficulties and/ or disabilities should be embedded within all its mainstream business processes including the planning dialogue with providers.

22. The LSC's national strategy for learners with learning difficulties and/or disabilities will be published in autumn 2006. The strategy will set out the way in which, through its new structure, the LSC will ensure effective delivery at local and regional level, and a common funding approach that will promote better collaboration between providers to deliver provision that meets the needs of vulnerable learners.

23. The LSC reflects Government priorities within provider plans, including ensuring that "individuals of all ages and backgrounds acquire the knowledge and skills that will enable them to realise their potential, improve their life chances and contribute to economic growth". These priorities are set out in the LSC document *Planning for Success* published in November 2005. Where the LSC identifies specific issues or concerns in relation to personal and community development learning and learners with learning difficulties and/or disabilities (i.e. gaps in provision or poor quality provision) then improvement targets would be agreed and included in the development plan. Where a provider has a mission specifically to work with vulnerable groups then the context and strategic development of this activity would be highlighted within the strategic commentary of the development plan. The delivery of the plan is monitored in terms of statistical data on the number and types of learners, and also the relevance, effectiveness and efficiency of the provision.

PAC conclusion (viii): Few colleges consult with more than a small number of businesses locally to identify their training needs. To meet the needs of employers, colleges should analyse their local industries, and through well developed communications strategies engage with both large and small businesses more frequently about their skills' needs and their longer term plans. Colleges should seek independent feedback from businesses on the quality of training provided.

24. The Department and the LSC agree with this conclusion and recognise the need for colleges to be more responsive to employers. The White Paper states "we will introduce measures that will put learners and employers in the driving seat in determining what is funded and how services are delivered". The White Paper proposes the development of a new standard for accreditation of colleges as Centres of Vocational Excellence that will include excellence in working with employers as a key criterion.

25. It will be essential that this new standard has the buy-in of employers and their representative organisations nationally, regionally and locally. To achieve the new standard, providers will need to demonstrate strong employer feedback through their own management information systems. We will also take into account feedback from employers who have accessed training support through the Train to Gain Skills Brokerage service. Finally, before the award of any new standard, it is anticipated that there will be an independent check of employers' views – so that they are clearly seen as the ultimate validators of employer responsiveness and excellence.

26. The new standard will be developed by the LSC working with Sector Skills Councils, other employer organisations and providers. The LSC will trial this standard through to the autumn, and roll out the new system from the end of 2006. Those gaining accreditation will have priority access to capital funding and will have a competitive advantage in attracting publicly funded business from employers.

PAC conclusion (ix): The long term aim for employers and learners to contribute more to the cost of their training will require colleges to be more commercially astute. Increasing fee income is a significant challenge for colleges. Colleges will need to develop business plans including reshaping their programmes to offer more courses for which people are prepared to pay, and to target their Learner Support Funds to mitigate the effects of fee increases on people less able to pay.

27. The Department the Learning and Skills Council (LSC) agree with this recommendation. The Government has constantly said that public funding alone cannot and should not pay for all the training necessary in a competitive economy. Employers and individuals also benefit and need to contribute to meeting the costs. To support this shift a new balance of responsibilities between government, employers and learners is needed with government focusing public funding on those who need it most.

28. A system of income targets for individual institutions was introduced by the LSC for the academic year 2005-06 as part of its local monitoring and planning system. The targets are negotiated individually with each college and take into account their particular mix of learners and programmes that they offer. They provide the essential basis for ensuring fee income is raised rather than learning opportunities cut or under-funded.

29. Last year, following consultation with the sector on fees, the Department published *Fee Income – Good Practice Guidance*. This guidance is intended to support colleges develop effective fee income strategies by identifying the key stages and promoting examples of good practice present in the sector. This guide covers: setting income targets and course fees; managing concessions including use of learner support funds; local network issues; and communications with learners and others.

Twenty-Sixth Report

Ministry of Defence

Assessing and Reporting Military Readiness

PAC Conclusion (i): Around 30% of the United Kingdom's Armed Forces had serious weaknesses to their peacetime readiness levels on average over the year to September 2005; weaknesses which would need to be addressed before these forces were ready to deploy on any future operation. The Department's high level of commitment to current operations impacts on readiness for future operations given the draw on resources and the lack of opportunity for deployed units to prepare for future roles, for example through collective training.

1. The Department agrees with the Committee's description of the readiness levels the Armed Forces have achieved. These continue to improve. In the year to December 2005, an average of 25 per cent of Force elements reported serious weaknesses (and none reported critical weaknesses that would make deployment on operations almost impossible). This exceeds the level of readiness set in SR2004 to be achieved by April 2008.

2. Providing the Force Elements required for current operations has been and remains the Department's highest priority. The Armed Forces have been operating at or above the maximum levels of effort anticipated in Defence Planning Assumptions since 2001. As the Committee has noted, this has inevitably had an impact on their ability to prepare for the full range of potential contingent operations in addition to those for which they are being used. Collective training is one element of this equation. The Department keeps this closely under review.

PAC Conclusion (ii): The Department has not established how quickly it expects to restore forces to funded levels of peacetime readiness. The Department has now published its baseline of 68% of forces with no Serious weaknesses to readiness, based on the average performance achieved in 2004–05. It is now aiming to achieve a target of 73% by March 2008 under the Public Service Agreement. The Department should set out a planned rate of improvement with interim milestones for that period, and indicate what further progress it expects beyond March 2008 towards achieving 100% of forces with no Serious or Critical weaknesses.

3. The Department has already achieved its PSA readiness target[4] some two years ahead of schedule. Supporting information is set out in its Quarterly PSA report covering the period October to December 2005 (available on www.mod.uk). The Department will continue to work to maximise the Armed Forces' readiness levels within the constraints of operational requirements and the resources available for defence. Achieving 100 per cent of force elements reporting no critical or serious weaknesses across the full range of possible operational scenarios against which readiness is measured is dependent on the level of actual operational commitments. This in turn is driven by our operational requirements at any given time, which are currently, and may periodically be above Defence planning assumptions. Given this, the point we have reached in the Department's planning cycle, and in advance of the Government's conclusions in the Comprehensive Spending Review on the resources available for Defence from 2008-09 to 2010-11, any timetable for achieving 100 per cent of force elements reporting no critical or serious weaknesses beyond March 2008 would be so speculative as to have no management value. Moreover, the Armed Forces exist to undertake operations, not to be ready to do so, and if the Government were to set such a target, meeting it could perversely require the Department to drive down actual operational commitments in order to be ready for a range of hypothetical alternative operations.

[4] 5% improvement (to 73%) in the proportion of force elements reporting no critical or serious weaknesses by April 2008

PAC Conclusion (iii): Achieving funded peacetime readiness has been difficult because forces are committed above Defence Planning Assumptions. At present, it is difficult to judge the Department's achievements in terms of the proportion of forces with no Serious or Critical weaknesses to peacetime readiness, or how stretching the Public Service Agreement target for readiness is. In reporting on peacetime readiness, the Department should set it in the context of information on the level of operational commitments, for example, the number of personnel deployed.

4. The Department already routinely publishes the information the Committee is seeking on the level of operational commitments and the number of personnel deployed. In particular it has published the proportion of the Armed Forces deployed on operations and other military tasks and the number of personnel deployed on operations in its Annual Performance Report and subsequently its Annual Report and Accounts since 2001-02, and quarterly in its Public Service Agreement reports since early 2004. The Department has also published indicative representations of the level of commitment measured against Defence Planning Assumptions in its Annual Report and Accounts since 2003-04. The Department agrees that the high operational tempo of recent years has made achieving funded peacetime readiness levels more challenging. Despite this, it has exceeded the funded SR2002 readiness target of 90 per cent of forces at their required readiness states with no critical weaknesses by April 2006 since October 2003, and no force elements have reported critical weaknesses since January 2005. The Department has also achieved the funded SR2004 readiness target of a 5 per cent improvement in the proportion of force elements reporting no critical or serious weaknesses by April 2008 since October 2005.

PAC Conclusion (iv): The continuing high levels of operational commitment are leading to significant strain on equipment support in particular areas, with long term effects. The Armed Forces have, for several years, been committed to operations at levels exceeding the Department's Defence Planning Assumptions, and the Department expects this to continue for the foreseeable future. As a consequence, the Department has relied on cannibalisation to increase equipment availability. The Department should establish thresholds for the proportion of the equipment fleet above which levels of cannibalisation would present unacceptable risks to readiness or be less cost effective over the longer term than adopting alternative solutions, such as increasing the rate at which equipment can be repaired.

5. The Department agrees with the Committee that the continuing high levels of operational commitment above the level of operations set out in Defence Planning Assumptions are stretching the system for equipment support in some areas. In its evidence to the National Audit Office and the Committee it provided a number of examples of how it manages this.

6. Cannibalisation is one of the measures used for this purpose. Its use has increased, but it is important to put this in context. For instance, while its incidence in the Royal Navy rose from between five and 10 to about 30 incidences a month, this was within a monthly total of 15,000 items. It is a legitimate and sensible way to deal with sustainability shortfalls and maximise the use of our available assets when the Department is operating beyond programmed assumptions. It can occur for a variety of reasons including increased support and sustainability requirements, lengthened repair loop times, the configuration of forces, or a specific operational requirement to provide a capacity to surge. There are a variety of controls in place at appropriate levels in the command chain to manage cannibalisation to ensure the responsiveness and integrity of the supply system as a whole. Over the longer term the Logistic Sustainability and Deployability Audit (LSDA) identifies key sustainability shortfalls to inform programming decisions on how to prioritise funding and thereby minimise cannibalisation in future operations.

7. The Department does not agree with the Committee's recommendation that it should establish thresholds for the proportion of the equipment fleet above which levels of cannibalisation would present unacceptable risks. Cannibalisation is a valid and necessary means of dealing with sustainability shortfalls when the Department is operating outside programmed assumptions. The level of cannibalisation is already subject to strict control regimes that are appropriate for each environment and at the Defence level the need for it is informed by operational priorities and the LSDA.

PAC Conclusion (v): The Department has reduced the readiness of the Royal Navy for future operations, in order to focus on the readiness of the Army and those parts of the Royal Air Force facing greater operational demands. Whilst this reduction has not prevented the Royal Navy undertaking its current operational tasks, the extent of the impact on future operational capabilities of the fleet is uncertain. Before it reviews resources available for the support of the Royal Navy in 2006, the Department should assess what physical degradation will result from the reduced support status for ships and derive cost projections for remedial work over the longer term.

8. The Department deliberately decided to take greater risk against the peacetime readiness levels of some maritime forces and reduced the resources to support generation of Royal Navy Force Elements for future operations. It agrees with the Committee that this reduction has not prevented the Royal Navy undertaking its current operational tasks. The Logistic Sustainability and Deployability Audit confirmed that the Defence Logistics Organisation remained able to support maritime operations.

9. The impact of the Reduced Support Period on the Royal Navy is being carefully monitored, including by the Defence Management Board in its regular review of Departmental performance and the in year financial position. A number of initiatives have been put in place to monitor the consequences of the Reduced Support Period and take remedial action if necessary. The impact on future readiness and the scope and timing of potential longer term remedial work will be examined during 2006 as part of the Department's biennial planning process.

PAC Conclusion (vi): The Department has yet to demonstrate that its asset tracking system is sufficiently resilient to cope with an operational environment and peak volumes of demand for any significant future deployment. Since the early 1990s, we have pointed repeatedly to deficiencies in the Department's asset tracking capabilities. The introduction of a civilian off-the-shelf system has given the Department visibility of the majority of items throughout the supply chain to Iraq, but it remains untested during the critical initial stages of any deployment. The Department plans to deliver additional enhancements to its system over the next three to four years, and should draw up contingency plans to accelerate its work programme should the capabilities be required for operational deployments in the shorter term.

10. The Department agrees with the Committees' description of the current position. The Department has a Consignment Tracking capability that has been tested during the roll out of preliminary operations in support of Operation HERRICK expansion in Afghanistan. The trend over recent months has been one of steady improvement as the changes to regulations, training, and equipment made as a result of Lessons Identified begin to deliver improved visibility of materiel in transit. However, the Department does not yet have a full computer based Asset Tracking capability (defined as the means of providing timely and accurate information on the location, movement, status and identity of units, personnel, equipment and materiel). It plans to deliver a range of Logistic Information Systems between 2006 and 2012 that will provide the base data to support asset tracking for the future. The JPA (personnel administration), JAMES (Asset Management and Engineering), MMIT (visibility of materiel in transit) and MJDI (managing

deployed inventory) programmes will feed data to support the Joint Command and Control Support System (Logistics) programme that will in turn provide asset tracking information to inform the Joint Logistic Plan.

11. There has been no opportunity to test the improved consignment tracking system during the peak flow to a Large Scale operation. The Department accepts the Committee's recommendation that contingency plans should be drawn up to accelerate the MMIT programme should the increased capability for large scale operational deployments be required in the shorter term. Any such acceleration, if implemented for operational reasons, would inevitably carry with it a significantly higher degree of procurement risk than a more measured approach, however well mitigated by contingency planning.

PAC Conclusion (vii): The Department plans to deliver efficiency savings to meet a target of £2 billion by 2011 through the Defence Logistics Transformation Programme, at a time when high levels of operational commitments are already stretching the logistics system. In implementing the savings, the Department will need to safeguard operational effectiveness and improved readiness through, for example, increased availability of equipments, quicker repair loops, and shorter supply times.

12. The Department agrees with this conclusion. The Defence Logistics Transformation Programme (DLTP) was created in May 2004 from merging the Defence Logistics Organisation (DLO) Change Programme and the End to End Study. Since then, an increased focus on delivering logistics change through effectiveness improvements has been successfully demonstrated and the DLTP continues to deliver further efficiency targets with tangible improvements in effectiveness. Performance is routinely published in the Department's Public Service Agreement and Efficiency Programme reporting, and in the Annual Report and Accounts. Examples of successful initiatives include:

- better planning and programming of repair periods at Portsmouth Naval Base for HUNT class mine counter measures vessels has reduced the maintenance period for each ship from five to three weeks, substantially improving their availability and reducing costs by £800,000 a year so far, and potentially by up to £3 million a year. A Contractor Logistics Support contract with industry for ship sonars has reduced costs by 14 per cent, and operational defect days for ships from over 150 in 2004 to 50 in 2005;

- pre-prepared and scaled centrally stored packs of equipment and spares have been introduced in the Army to support high readiness, reduced the value of holdings from £9.1 million to £2.8 million and improving availability from 38 per cent to 78 per cent;

- a single location for all major repair, maintenance and upgrade for Tornado GR4 aircraft has been set up at RAF Marham. A new contract with BAE Systems will save £321 million over five years and release six further aircraft from the repair cycle to the front-line by 2008. A similar contract with Rolls-Royce will save £136 million in five years and improve Tornado engine availability and reliability. The engine propulsion facility is now delivering twice the number of engines using half the number of people;

- The Future Defence Supply Chain Initiative (FDSCi) is being introduced in 2006. This will streamline the supply chain storage and distribution network, saving £400 million over ten years through rationalization and concentration of infrastructure while delivering 98 per cent of items and equipment on-time and in full.

Twenty-seventh Report

Department for Environment, Food and Rural Affairs

Lost in Translation? Responding to the Challenges of European Law

PAC conclusion (i): The United Kingdom has a good record on transposing European Directives in a timely manner, being within the European Commission's target of no more than 1.5% of transpositions outstanding in 2005.

1. The Department agrees with this conclusion and welcomes the recognition that its efforts to transpose Directives in a timely manner have contributed to the United Kingdom meeting the European Commission's target of no more than 1.5 per cent of single market transpositions outstanding.

PAC conclusion (ii): Delays in implementation ... can be costly for those affected by the Directive.... Where ambiguities exist, Departments should estimate the potential costs to the taxpayer and to industry of delay, so as to determine when the costs and risks associated with seeking further clarity outweigh the potential benefits.

PAC conclusion (iii): The Department's record on providing timely guidance to those affected by new regulations has been poor in the past.... To improve performance the Department is applying Programme and Project management techniques to transposition and... the approach should be rolled out more widely within the Department and to other departments engaged in implementing European legislation.

2. The Government agrees that application of Programme and Project Management (PPM) techniques will help to ensure, amongst other things, that timely guidance is provided to those affected by the new regulations. Use of PPM techniques will also help to ensure that where ambiguities exist, an assessment is made of whether the risks and cost of delay in seeking greater clarity can be justified.

3. Within Defra, a continuing training programme provides all staff working on the transposition of EU legislation with the necessary PPM skills. The PPM tools developed for the transposition of EU environmental legislation are being adapted for the negotiation phase of the European legislative process and are being used in two pilot projects (on the revision of the Waste Framework Directive, and the proposal to include aviation in the EU Emissions Trading Scheme).

4. The Department is also seeking to share best practice with other government departments on applying PPM to transposition (The Office of Government Commerce, the custodians of PPM throughout government, has placed on its website a number of examples from the Department's Centre of Excellence in PPM to demonstrate best practice).

PAC conclusion (iv): In drafting guidance the Department should take account of the nature of the businesses or industry affected and adapt their guidance and communication strategy accordingly....

5. The Department does take into account the audiences to which guidance is addressed. In some cases, this can be challenging, for example where there are significant differences in the size of businesses to which the guidance is addressed. The Department is developing a number of initiatives to ensure that advice provided to businesses is appropriate and meets their requirements. These include: the Whole

Farm Approach to provide integrated access for the farming industry; the Rural Business Advice Channel to provide more structured online content for the farming and land management sector; and the Advice Co-ordination Project to establish a more co-ordinated and consistent approach for rural land managers.

6. The Department is also working to reduce the cost of the administrative burdens imposed by its regulations. And, in November 2005 the Department published its initial regulatory simplification plan, "Lifting the Burden", which sets out how the Department is cutting red tape and simplifying regulations.

PAC conclusion (v): To minimise delays and meet transposition deadlines, Departments should encourage the Devolved Administrations to transpose Directives in parallel rather than sequentially....

7. The Department works closely with the Devolved Administrations on the transposition of EU legislation, and encourages them to transpose in parallel, rather than sequentially.

PAC conclusion (vi): Successful implementation is dependent on having adequate resources with the right skills and expertise available throughout the process from negotiation to implementation. Departments should take account of likely timescales in putting together negotiation and implementation teams, and deploy staff flexibly to provide both continuity and access to appropriate knowledge and expertise.

8. The Government agrees that successful implementation requires adequate resources, and staff who have the right mix of skills and expertise. It can take up to five years to negotiate, transpose and implement European legislation, and a different mix of skills may be needed at different stages. It is not, therefore, always practical or desirable to have the same staff involved throughout: rather the use of PPM techniques is key to providing continuity and ensuring that knowledge is not lost.

PAC conclusion (vii): The Department accepted that over-implementation of Directives could occur, but only when the Government chose to add policy initiatives of its own. If Departments have genuinely good reasons for over-implementation, the Minister's attention should be drawn to the specific areas in proposed regulations or instruments which go beyond the minimum requirements of the Directive, to avoid placing any unnecessary burdens upon industry. The transposition method which has been used (copy-out or elaboration) should be highlighted, with the reasons for any use of the elaboration method.

9. The Government accepts these recommendations. Defra Ministers are advised where recommendations on transposition go beyond the minimum requirements of the Directive; this requirement is set out in the Cabinet Office guidance "Transposition guide: how to implement European directives effectively".

10. The Government has asked Neil Davidson QC to carry out a review of the UK's implementation of EU legislation, with a focus on the issue of over implementation. The Department and other government departments are working closely with the review team, which is based in the Better Regulation Executive, to identify potential areas where the UK has regulations which are stricter or more burdensome than required by current EU legislation, and to address any unnecessary regulatory burdens in their simplification plans.

PAC conclusion (viii): The legal status of material implemented with Directives can be unclear, causing confusion for those in affected businesses.... The Department should find out from users whether the language and layout used in such codes makes the legal status of each recommendation clear... The Department should use the findings to improve the clarity of such Codes in future.

11. The Department accepts this recommendation. The Department will ensure that the legal status of each recommendation in new welfare codes is clearly stated so that users will know which are mandatory and which are for guidance only.

Twenty-eighth Report

Department for Education and Skills

Extending access to learning through technology: Ufi and the learndirect service

PAC conclusion (i): In seven years Ufi has provided over 4 million courses to 1.7 million people up to July 2005, two-thirds of whom had not done any learning in the previous three years. It now provides around 500,000 learners a year with an opportunity to improve their skills either at one of 2,400 learndirect centres, at work, or from their home computer.

1. The Department for Education and Skills (the Department), the Learning and Skills Council (LSC), and Ufi accept this conclusion. The innovative approach that Ufi has successfully employed, has engaged large numbers of learners who would otherwise not have undertaken learning. In addition to the number of learners and courses, Ufi has delivered more than 33 million telephone and web advice sessions about learning and careers, and generated brand awareness of 74 per cent. Its annual throughput of some 500,000 learners confirms Ufi's position as the LSC's largest provider.

PAC conclusion (ii): Around 60% of learners enrolling with learndirect in 2004-05 were low skilled learners (pre-level 2 qualified), compared with an adult learner average closer to 30%. Relatively few have taken up adult level 2 and adult literacy and numeracy qualifications that are priorities for the Department. Ufi should identify and disseminate examples of how some learndirect centres are persuading and supporting low skilled people to take up and achieve these qualifications, for example by providing successful learners as mentors to people just starting to learn.

2. The Department, the LSC, and Ufi accept this recommendation.

3. Ufi was set up originally to widen participation and to get people into learning who had been turned off learning, and it has been successful in doing that. Many of the people who use Ufi's services are not aspiring to further qualifications at level 2. Over 50 per cent do progress to a higher level of qualification than their initial point of engagement, and also eight out of ten people get a positive outcome at work. In 2004 the Department asked Ufi to re-look at the way it was focusing its energy. Up until then Ufi was asked to be non-qualification led, and now it is qualification-led.

4. It is encouraging that around 60 per cent of learners enrolling with learndirect were pre-level 2 qualified. Ufi now has growing targets to increase the proportion of learners who achieve a level 2 qualification in line with government priorities. Target outputs for 2006-07 operating year (which runs from 1 August to 31 July) are 50 per cent Skills for Life Progression to test, 50,000 First Skills for Life test passes, and 3,000 pre-level 2 learners achieving level 2 with learndirect. Ufi will work with the LSC and the Department during the 2006-07 operating year to identify the best practice which achieves high success rates among the lower skilled.

PAC conclusion (iii): Only 37% of small and medium-sized businesses know that learndirect is intended to support them and only 4% use it. Ufi's rationale is to boost employability and productivity, but it has done limited work directly with employers. Ufi should develop a strategy for substantially increasing its direct work with employers within the next two years. The strategy should include:

- **a campaign to promote what learndirect can offer to companies, focusing on how training through learndirect has improved productivity and business results;**

- **a programme to expand the level of activity by learndirect providers working predominantly with particular employers or in specific business sectors; and**

- **a timetable for reviewing learndirect courses to identify ways in which they can be made more suitable for use by businesses.**

5. The Department, the LSC and Ufi accept this recommendation. Ufi's general profile, the brand of learndirect, is good within small and medium sized enterprises (SMEs) – 71 per cent, as opposed to 74 per cent for the population as a whole. However, when looking at the focus of the learndirect business brand, which is a specific Ufi offering, it falls away to 37 per cent. Ufi clearly recognises that now, as it starts to mature as an organisation, it has a lot more to do to address the needs of the employer market. Ufi is developing a robust strategy and detailed action plan, which will address the three points recommended by the Committee, with the aim of generating £44 million revenue a year from employers including SMEs by 2011. The strategy and plan will be presented to the Ufi Board in April 2006.

PAC conclusion (iv): Some 40% of enterprises provide no skills training for their employees. Lower levels of skills training compared to some other countries have an impact on the UK's competitiveness. Skills brokers, who provide advice on training opportunities and suitable providers, should work with learndirect providers to make e-learning more appealing to employers who are otherwise unlikely to provide skills training, for example by making the course content more relevant to the needs of small and medium-sized businesses.

6. The Department, the LSC and Ufi accept this recommendation. A better skilled workforce contributes significantly to improved productivity and competitiveness. Figures published in the Statistical First Release published on 23 February 2006 show good progress against the Department's level 2 Public Service Agreement (PSA) target aimed at tackling the adult skills gap. The figures indicate an annual increase in attainment at level 2 (or higher) of 1.5 per cent for economically active adults; this represents 840,000 towards the Department's milestone target of 1 million more adults in the workforce to achieve a level 2 between 2003 and 2006.

7. But more needs to be done to engage employers in learning. The new National Employer Training Programme (Train to Gain), being rolled out this year, will deliver a strong contribution to the Department's level 2 PSA target and is at the heart of creating a demand led training system.

8. It will build on the success of the Employer Training Pilots, and by the LSC's 2007-08 operating year the Department expects it to support over 50,000 employers and 350,000 learners, to achieve 175,000 first full level 2 qualifications a year. By the end of 2010 the Department expects over 500,000 to have achieved a first full level 2 qualification through this programme.

9. A free brokerage service will provide employers with advice and access to a full range of vocational training programmes, including basic skills training, apprenticeships, and foundation degrees.

10. E-learning also has a crucial role in providing flexible solutions to employer skills needs. The Department, the LSC and Ufi support the recommendation that brokers should work closely with Ufi and learndirect providers to ensure that employers are aware of the wide range of opportunities available through e-learning, and that course content is tailored to the needs of SMEs.

PAC conclusion (v): Access to learndirect is limited in some rural areas. There is potential for online learning to improve access to learning in rural areas. Rural provision is an aspect of Ufi's business that is likely to benefit from further innovation, for example by providing learndirect services through online tutoring and within existing local amenities such as schools and community centres.

11. The Department, the LSC, and Ufi welcome the Committee's focus on further innovation to meet the needs of rural areas. Ufi's services are geared towards the low skilled population, so Ufi focuses on providing to them wherever they are located. Connectivity across the UK is not an issue. 99.6 per cent of the UK is now covered by broadband, so Ufi can reach people.

12. The issue is cost of delivery in certain areas where there is low population density. Ufi is currently in the process of re-tendering its network for the delivery of learndirect for the two-year period beginning on 1 August 2006, and expects to make greater use of mobile units, remote tutoring and partnership delivery, to ensure that learndirect can continue to be accessed by those living in rural areas. This could include children's centres, extended schools and other community facilities.

PAC conclusion (vi): Ufi is intended to be self funding but by July 2005 had recovered only £12 million commercial income, compared with £930 million received in education funding. Ufi now has a challenging target to increase its commercial income to £40 million a year. It should compile and publish a detailed business plan setting out how this is to be achieved.

13. The Department, the LSC, and Ufi agree that Ufi has a challenging target for generating commercial income. While employers have always been important for Ufi, it has had other priorities, such as widening participation in adult learning and Ufi has not substantially penetrated those areas of learning and training for which employers are prepared to pay.

14. Whilst the Department, the LSC and Ufi agree that Ufi's dependence on Government funding would fall as it increasingly generates income, it is important to note, however, that Ufi will continue to need public subsidy to address areas of market failure, a point which was stressed at the hearing of the Committee by the LSC Chief Executive Mark Haysom.

15. The Department and the LSC have endorsed Ufi's plans for a key focus on low skilled learners combined with a plan to increase commercial income. Ufi has set a target to establish one per cent share of the annual United Kingdom £4.4 billion commercial training market. As a first step following the Comptroller and Auditor General's report, Ufi has successfully launched an e-commerce pilot in January 2006, which enables SMEs to purchase training online and start their course immediately after purchase.

16. Ufi has a rolling 5 year strategic plan as well as a detailed annual business plan. These plans will clearly set out how Ufi will achieve its commercial income target. Ufi's Board will consider the extent to which this information, some of which will be commercially sensitive, is shared wider than the Department and the LSC. Ufi will publish its Strategic Plan 2006-2011 following Board approval.

PAC conclusion (vii): By 2004-05 Ufi was still spending nearly one third of funding for services to learners on management and marketing costs. Ufi has reduced these costs over the past two years but its four-tier delivery chain carries the risk of duplication of activities and unproductive bureaucracy. Ufi should develop a simpler, more cost effective structure, for example by reducing the number of organisational tiers.

17. The Department, the LSC, and Ufi accept this recommendation. Ufi has already achieved much to reduce its overheads. In 2004-05 the original budget for management and marketing was to spend £64 million, but Ufi reduced that by £10 million. In 2005-06 Ufi's budgeted overheads for management and marketing are £44 million, so they have dropped substantially, and next year they will drop substantially again.

18. In January 2006, Ufi announced the outcome of a review of its four-tier delivery chain. This will lead to a £10 million reduction in central costs year-on-year as a result of removing one tier of its current delivery chain from the end of July 2006.

PAC conclusion (viii): Ufi achieved only 54% of its target of 0.45 million calls to its National Advice line in 2004-05 from people who are pre-level 2 qualified. Ufi considers that the shortfall is largely due to the timing of advertising campaigns. But as the service attracts large numbers of calls from hard to reach learners, Ufi needs to determine with greater certainty the reason for the shortfall. If hard to reach learners are using the service less, it should review use of the learndirect website to make sure that it is providing a satisfactory alternative for these learners to obtain advice.

19. The Department, the LSC, and Ufi accept this recommendation. The LSC is considering how best to ensure that a national entry point to information, advice and guidance on learning and work is best made available in England.

20. According to Ufi's own research, 22 per cent of current users of the learndirect advice service are without a level 2 qualification. Since the launch of the advice service on the learndirect website in 2000, calls to the learndirect helpline have declined by 41 per cent. In the same period, web sessions have grown, and Ufi expects around 8 million web sessions this year.

21. In order to make the web-delivered learndirect advice service more attractive to users qualified below level 2, Ufi is planning a major refresh of the learndirect advice website, starting in the summer of 2006. The dual purpose of the refresh is to make the site a more engaging experience for those without a level two qualification, and to link information on the website more closely with personalised support from the helpline. To date the site has always had all adults as the target audience. Ufi has agreed with the Department and the LSC that the adult learning section of the DirectGov site (which Ufi manages) will be the principal mechanism for communicating with all adults, freeing the learndirect advice site to tailor content for those without a level 2 qualification.

PAC conclusion (ix): Only around half of learners are recorded as meeting their training objectives. It is unclear how far the problem is poor record keeping or learners actually not meeting their objectives. Ufi should require its contractors to keep accurate, relevant records of learner achievement.

22. The Department, the LSC, and Ufi accept this recommendation. This is a technical issue about recording achievement. Ufi tracks the completions and the completion rate is above 70 per cent. An individual might complete their course; but Ufi may not always have a stated record of whether individuals personally achieved their own outcomes, which may be a specific element within the course. The effect of this is to understate the achievement. Ufi will agree with the LSC and the Adult Learning Inspectorate that 'achievement' is recorded and make this a mandatory piece of data collection in the 2006-07 operating year.

PAC conclusion (x): The full potential for other parts of the education sector to benefit from learndirect has yet to be realised. Ufi should invite schools, colleges and other learning providers such as those working in prisons to review its

products and help determine which are likely to have widest application. It should adapt its business beyond core areas, for example by developing training for offenders.

23. The Department, the LSC, and Ufi accept this recommendation. Offender learning is an increasingly important issue within the skills for life and employability agenda. Ufi is already managing a pioneering initiative, *The ESF Pathways Project* which aims to introduce learndirect learning to offenders in custody and in the community.

24. Ufi will continue to explore with the Department and the LSC the range of opportunities that are available to it. However, expansion into any particular area will depend upon funding being available from partners or others and prioritisation of technical and pedagogical development for publicly funded and commercial revenue generating delivery.

PAC conclusion (xi): Online learning poses particular risks to financial control. learndirect centres are funded on the basis of people taking up courses online, but confirmation of learner existence is challenging where physical presence cannot be easily verified such as in a classroom. Ufi should publish the results of its current investigation of learner existence once it is completed, including a thorough assessment of the lessons learned from the investigation, which the Learning and Skills Council should disseminate to other training providers.

25. The Department, the LSC, and Ufi accept this recommendation. Ufi plans to publish the results of its current investigation so that the LSC can disseminate this to other training providers. In the current funding year, 2005-06, Ufi has introduced a new enhanced funding audit methodology for learndirect centres in order to provide improved safeguards against the possibility of inappropriate use of public funding.

26. This methodology has been agreed by the LSC and the auditors Grant Thornton. Ufi now gives individual centres a classification which ranks them by value and risk using 10 separate risk indicators. These scores are used to manage funding audit, and also by Ufi regional teams to manage the day-to-day management of centres. This revised approach to risk classification ensures a robust and rigorous process for risk management.

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